

**Financial Statements and Auditors' Report**  
**MICHIGAN PROFESSIONAL INSURANCE AUTHORITY**  
**June 30, 2005**

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# STRIEGEL KNOBLOCH & COMPANY, L.L.C.

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## Independent Auditors' Report

Michigan Professional Insurance Authority  
Grand Haven, Michigan

We have audited the accompanying basic financial statements of the Michigan Professional Insurance Authority (a public entity risk pool) as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Michigan Professional Insurance Authority as of June 30, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on Pages 4 and 5 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures that consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion or any other form of assurance on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of insurance policies described in the table of contents is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Striegel Knobloch & Company LLC*

Bloomington, Illinois  
September 7, 2005

# MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

## Management's Discussion and Analysis

### The Authority – An Overview

The Authority, a group self-insurance pool, was established pursuant to Chapter 124.5, Sections 5(1) and 5(5), of the Michigan Compiled Laws, as established by Act 35 of 1951 (Intergovernmental Contracts Between Municipal Corporations).

The Authority was established for the purpose of preventing or lessening casualty losses to governmental properties and injuries to persons or property which might result in claims being made against its current participating public entities, including the Grand Haven, Michigan Board of Light and Power ("GHBLP") and the Zeeland, Michigan Board of Public Works ("ZBPW").

Each participating public entity bears its own risk in its self-insurance accounts which are administered by the Authority for them.

On July 1, 2004, the Authority entered into a management contract with the Risk Insurance Management Company (RIMCO), an Illinois not-for-profit corporation, for risk management, investment and related insurance services.

### 2005 Environment

The Authority's initial year began July 1, 2004. The year began with hardening of rates in many lines. Many businesses and public entities faced sharply higher rates for commercial insurance. In some cases, policyholders will be unable to purchase sufficient coverage for power plant utility distribution systems. There have been rate increases of 325% or more. Other lines of insurance, such as general liability and business autos, have experienced premium increases as well.

### Financial Position

The Authority's total assets at June 30, 2005 were approximately \$872,000. Of this amount, \$750,000 consisted of investments as follows:

<u>June 30, 2005</u>	<u>Amount in Thousands</u>	<u>Terms</u>
U.S. government obligations	\$ 403	0 to 13 years
Corporate bonds	348	0 to 10 years

### Results of Operations

Participating public entities contributed \$1,835,000 to fund the Authority as of June 30, 2005. The Authority finished the year ended June 30, 2005 with assets of approximately \$872,000. Controlling participating public entity losses is the primary objective of the Authority's management.

# **MICHIGAN PROFESSIONAL INSURANCE AUTHORITY**

## **Management's Discussion and Analysis - Continued**

### **Cash Flow and Liquidity**

The Authority had positive cash flow in 2005 of \$108,582. The Authority has no borrowed funds.

### **Board Policies and Management Practices**

The Board of Directors of the Authority currently requires that audits conducted by independent outside firms be performed on an annual basis. The 2005 audit schedule included (1) a financial audit for GAAP which was completed in September 2005 and (2) an investment review of performance.

### **Opinion**

The preceding Management's Discussion and Analysis provides an assessment of the financial position, results of operations and cash flow and liquidity for the fiscal year ended June 30, 2005 as reported in the 2005 annual report. Representations made herein are those of management according to the best of their knowledge and belief.

**MICHIGAN PROFESSIONAL INSURANCE AUTHORITY**

**Statement of Net Assets**

**June 30, 2005**

**ASSETS**

Investments (Note 1):	
Notes	\$ 45,873
Bonds	356,824
Corporate bonds	<u>347,881</u>
Total Investments	750,578
Cash - money market (Note 1)	108,582
Interest and dividends receivable	<u>13,086</u>
Total Assets	\$ <u><u>872,246</u></u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 251
Advance contributions received	852,498
Participating public entities' funds on deposit	<u>19,497</u>
Total Liabilities	<u>872,246</u>
Net assets	<u>-</u>
Total Liabilities and Net Assets	\$ <u><u>872,246</u></u>

The accompanying notes are an integral part of these statements.

**MICHIGAN PROFESSIONAL INSURANCE AUTHORITY**  
**Statement of Revenues, Expenses and Changes in Net Assets**

**For the Year Ended June 30, 2005**

Revenue:	
Participating public entities' contributions	\$ 982,502
Administrative contribution	<u>25,000</u>
Total Revenue	<u>1,007,502</u>
Expense:	
Claims paid	1,957
Insurance expense	811,487
Management fees	165,000
Professional services	<u>29,058</u>
Total Expense	<u>1,007,502</u>
Net Change in Net Assets	\$ <u><u>-</u></u>

The accompanying notes are an integral part of these statements.

# MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

## Statement of Cash Flows

For the Year Ended June 30, 2005

Cash flows from (used in) operating activities (Note 3):	
Cash received from member assessments	\$ 982,502
Cash received from reimbursements	25,000
Cash paid for premiums	(811,487)
Cash paid for claims	(1,957)
Cash paid for professional and administrative fees	(195,376)
Interest and dividends received	<u>26,726</u>
Net cash from operating activities	<u>25,408</u>
 Cash flows from (used in) investing activities:	
Purchase of investments	(1,193,182)
Proceeds from investment sales	423,858
Advanced participating public entities' contributions	<u>852,498</u>
Net cash from investing activities	<u>83,174</u>
 Net increase in cash and equivalents	108,582
 Cash and equivalents at beginning of year	<u>-</u>
Cash and equivalents at end of year	<u>\$ 108,582</u>

The accompanying notes are an integral part of these statements.



# **MICHIGAN PROFESSIONAL INSURANCE AUTHORITY**

## **Notes to Financial Statements**

**June 30, 2005**

### **Note 1 - Summary of Significant Accounting Policies:**

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles appropriate for public entity risk pools, which are funds used to account for the financing of risks, exposure or liabilities of other units of government or other governments. The policies that materially affect financial position and results of operations are summarized as follows:

#### **Organization and Nature of Business:**

The Authority was formed on July 1, 2004, and is an agency separate and apart from the charter members and other units of government pursuant to Chapter 124 of the Michigan Compiled Laws. It was established for the purpose of preventing or lessening casualty losses to governmental properties which might result in claims being made against the participating public entities. The participating public entities are Zeeland, Michigan Board of Power and Water and Grand Haven, Michigan Board of Light and Power, both located in the State of Michigan.

It is the intent of the participating public entities of the Authority to create an entity which will administer a risk management fund or a joint risk management fund and utilize such funds contributed by the participating public entities to defend and protect, as provided herein, any participating public entities of the Authority and employees against stated liability or loss. The individual participating public entities retain the risk of loss in the event of claims. The participating public entities will reimburse the Authority for funds paid on their behalf if they exceed their individual contributions.

On July 1, 2004, the Authority entered into a management contract with Risk Insurance Management Company (RIMCO), an Illinois not-for-profit corporation, for risk management, investment and related insurance services.

The Authority reports as a Business Type Activity. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

# MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

## Notes to Financial Statements - Continued

June 30, 2005

### Note 1 - Summary of Significant Accounting Policies - Continued:

#### Investments:

The classification of securities is generally determined at the date of purchase as follows:

#### Securities held to maturity:

Bonds, notes and debentures for which the Authority has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

#### Securities available for sale:

Securities available for sale consist of bonds, notes, debentures and certain equity securities not classified as securities held to maturity. Unrealized holding gains and losses on securities available for sale are reported as a net amount in a separate component of members' surplus until realized. Gains and losses on the sale of securities available for sale are determined using the specific identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

#### Available-For-Sale Securities at June 30, 2005:

	<u>Amortized Cost</u>	<u>Unrealized (Losses)</u>	<u>Fair Value</u>
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 403,428	\$ (731)	\$ 402,697
Corporate bonds	<u>358,828</u>	<u>(10,947)</u>	<u>347,881</u>
Total	<u>\$ 762,256</u>	<u>\$ (11,678)</u>	<u>\$ 750,578</u>

# MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

## Notes to Financial Statements - Continued

June 30, 2005

### Note 1 - Summary of Significant Accounting Policies - Continued:

#### Use of Estimates in the Preparation of Financial Statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

### Note 2 - Insurance Coverage:

The Authority has entered into insurance contracts for the benefit of participating public entities with various companies. These policies provide the following deductibles for the participating public entities:

Property, including building and contents, earthquake, flood and fire	\$ 250,000
Errors and omissions by employees	25,000
General liability	100,000
Auto – collision per occurrence	1,000
Umbrella	10,000
Specific to SIMS #3 generating plant (GHBLP)	500,000

The above deductibles represent the level of exposure to the participating public entities. It is the intent of the participating public entities, by having these policies, to reduce the loss that may arise from catastrophes.

# MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

## Notes to Financial Statements - Continued

June 30, 2005

### Note 3 - Cash Flows Statements:

For purposes of the Statement of Cash Flows, the Authority considers the cash in the bank and money market account on the balance sheet to be cash equivalents. The following is a reconciliation of net earnings to cash provided (used) by operating activities:

Net earnings	\$ -
Adjustments:	
Realized loss on securities	7,068
Unrealized loss on securities	11,678
Changes in assets and liabilities:	
Decrease (increase) in receivables	(13,086)
(Decrease) increase in liabilities – net of advanced contributions	<u>19,748</u>
Net cash from operating activities	\$ <u>25,408</u>

**SUPPLEMENTAL SCHEDULE**

**MICHIGAN PROFESSIONAL INSURANCE AUTHORITY**

**Schedule of Net Investment Income**

**For the Year Ended June 30, 2005**

Investment income:	
Interest income	\$ 37,317
Dividend income	2,495
Investment loss	<u>(7,068)</u>
Total	32,744
Investment expense	<u>1,569</u>
Net investment income	\$ <u><u>31,175</u></u>